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C O N F I D E N T I A L SECTION 01 OF 02 TBILISI 002680

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STATE FOR EUR/CARC AND EB/IFD/OIA  
COMMERCE FOR 4231 DANICA STARKS  
TREASURY FOR OIA  
MOSCOW FOR TREASURY ATTACHE

E.O. 12958: DECL: 10/04/2016  
TAGS: [EFIN](#) [ETRD](#) [EWWT](#) [ECON](#) [PREL](#) [GG](#)  
SUBJECT: RUSSIA'S TIGHTENING THE ECONOMIC SCREWS ON GEORGIA  
COULD HURT IF PROLONGED

REF: A. TBILISI 2262  
[1](#)B. TBILISI 2424  
[1](#)C. TBILISI 2616  
[1](#)D. MOSCOW 11107

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Classified By: Ambassador John F. Tefft, reason 1.4(d).

[1](#)1. (U) This is an action request for EB and EUR. See paragraph 8.

[1](#)2. (U) Russia has announced that all airline, rail, road, sea and postal links to Georgia will be closed after midnight Monday, October 2. On October 3, the Transport department of the Georgian Economic Development Ministry confirmed to the Embassy that the Russian Civil Aviation Authority (CAA) had informed the Georgian CAA that starting October 3, the three Georgian carriers, Georgian Airways, Tbilaviamsheni, and Georgian National Airlines would not be allowed to land in Russia. The reason given was a lack of certain documentation, which the Ministry insists has already been presented to the Russian CAA long ago. The Georgian CAA has received formal notification that Aeroflot and Pulkovo Airlines are ceasing operations to Tbilisi, but has had no official word as yet from other airlines such as Cibir. We expect those flights will be canceled for the time being as well.

[1](#)3. (U) The announced cutoff of rail links should create no real hardship for rail passengers. Essentially this means that two cars on the Moscow-Baku route that are designated for onward travel to Tbilisi will no longer be included on that train, and passengers will have to change trains in Baku. As for freight, if rail and sea links are interrupted for a prolonged period, it will have a deep negative impact on the economy and standard of living in Georgia. Many consumer products, raw materials and industrial inputs are imported from Russia to the port of Poti and via rail links through Azerbaijan. Georgia's imports from Russia in 2005 were \$384,349,900, 19% of its total imports. (The EU as a whole supplied 33% of imports, or \$671,386,900 million.) Oil and gas are important imports from Russia, and we were told on October 4 by Deputy Minister of Energy Archil Mametelashvili that gas supplies from Russia are still flowing normally. Georgia's exports to Russia were 17.7% of its total exports in 2005. According to the local director of a worldwide food product company we talked to, his inventory has been arriving by sea from Novorossisk since

road connections north via Kazbegi and the Georgian Military Highway were cut off in June 2006 (Ref B). His products will now leave Novorossisk invoiced to a subsidiary in Switzerland, and once they are at sea, his Swiss subsidiary will sell them to the Georgian subsidiary. Such strategies are available to a global company like his, but will not be feasible for smaller importers whose traditional connections are with Russian wholesalers.

14. (U) Because the Kazbegi crossing has been closed since July 7, any new blockade of road transport to and from Russia can only affect the illegal crossings into South Ossetia and Abkhazia. The Georgians have made these illegal border crossings the basis of their objections to Russian WTO accession. It is unclear at this point whether Georgian trucks will be turned back at the Azerbaijan-Russia border if they attempt to enter Russia through Azerbaijan. Even if such traffic is allowed, and Georgian traders can use it as an alternative to sea transport, the additional costs will impose a serious burden on them.

15. (U) The head of the Telecommunications Department of the Ministry of Economic Development told us on October 3 that the Georgian post office has not yet received any official notification of interruption of postal services. He believes that express shipments via DHL, UPS, Federal Express and the like may be able to be routed through third countries.

16. (U) According to press reports and ref C, changes to Russian legislation are being contemplated to allow interruption of financial transfers from Russia, including remittances by the estimated 500,000 Georgians living in Russia. The Georgian National Bank estimates that 80% of these migrants send money back to relatives in Georgia. According to the National Bank, remittances from Russia totaled \$253,523,000 in 2005, which is 4% of GDP and 63% of all remittances to Georgia from the world, As reported ref

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C, all remittances to Georgia from all countries account for a total of 6% of GDP in 2005 and totaled \$181,633,000 in the first seven months of 2006. Roman Gotsiridze, President of the National Bank of Georgia, has told us that he thinks a total cutoff of financial transfers is technically impossible (ref C). The General Director of one of the largest commercial banks in Tbilisi, TBC Bank, told us that he does not believe a cutoff of remittances will have a significant effect because so much of the remittances is carried by hand in cash over the border. We are more concerned, because the transport restrictions will make such travel much more difficult and workers could find it difficult to find agencies under Russian jurisdiction that will accept their cash for electronic transfer if the Russian government has clearly expressed its disapproval.

17. (U) The Standard and Poor's rating service shares our view that a prolonged blockade of transportation by Russia against Georgia could have significant negative consequences for the Georgian economy. S&P's London office issued a statement on October 3 that the deteriorating relations with Russia could threaten the positive ratings outlook on Georgia (whose sovereign rating is now B /Positive/B (long-term/outlook/short-term)).

18. (C) Embassy Tbilisi would appreciate EB's opinion as to whether an interruption of financial transfers and any of the transport bans imposed by Russia on Georgia might violate international agreements such as the GATT or international transport agreements under organizations such as ICAO or the International Postal Union.

TEFFT